

## New Markets Tax Credit program

### Executive Overview

The New Markets Tax Credit is a program designed to spur the investment of \$15 billion in new private capital into business in low income urban and rural communities in the United States. Through this program, individuals and corporations who make an equity investment in an eligible “Community Development Entity” (CDE) receive a tax credit worth 39% of their investment over a seven year period. The Community Development Entities, in turn, make equity investments in or loans to businesses serving low income communities.

By providing a direct return to investors in the form of a tax credit, this program can improve the return on investment projections or help close funding gaps for projects in low income communities. Projects in those communities are critical to realizing the communities’ human and business potential through their support for the creation of the necessary real estate and business infrastructure for economic success.

In 2002, the first year funding was available through the program, \$2.5 billion in tax credits was awarded nationwide through a competitive proposal process. Two organizations in Massachusetts received a total of \$26 million. With \$1.5 billion in credits planned for this year’s program, and amounts increasing to \$3 billion in future years, Massachusetts should be competing for a larger share of these credits to support the Commonwealth’s economic development - \$100 million is not an unreasonable target. Increased communication, education and coordination among the groups involved will increase our chances of success.

To realize this program’s potential requires the involvement and coordination of several different constituencies. For-profit entities who invest in low-income communities apply for certification as **Community Development Entities**. **Developers, businesses and community-based organizations** operating in low-income communities create projects. Individual and corporate **investors** are identified to invest in the CDE’s who in turn invest or loan money to the projects. **Financial institutions** can play one of multiple roles – as investors, as CDE’s, as facilitators or as providers of additional capital for projects. **Non-profits** involved in low-income communities could leverage their grants or investments with this program or form for-profit subsidiaries to become direct participants as CDE’s. **Law and accounting firms** can participate throughout the process as facilitators and enablers.

The Commonwealth of Massachusetts is setting up the Massachusetts Connection as clearinghouse to provide information on the program to potential participants and to help match investors, CDE’s and community-based businesses and projects with each other. The clearinghouse will also facilitate aggregation of these groups to reduce overhead and improve competitiveness.

The benefits of the New Market Tax Credit program are clear – investors enhance their return through tax credits, community development entities increase the number of projects they support and businesses operating in low income communities gain access to more capital to enable their growth and success. Working collaboratively to take advantage, Massachusetts-based organizations should be able to significantly increase our share of the benefits of the New Markets Tax Credit program. A more detailed look at the program is provided in the accompanying Q&A.